STAAR SURGICAL CO
Form 10-Q
May 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended: March 30, 2018
Or
¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 0-11634

STAAR SURGICAL COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**95-3797439**
(State or other jurisdiction of	*(I.R.S. Employer*

incorporation or organization) Identification No.)

1911 Walker Avenue

Monrovia, California 91016

(Address of principal executive offices)

(626) 303-7902

(Registrant's telephone number, including area code))

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

¨ Large accelerated filer	þ Accelerated filer	¨ Non-accelerated filer (Do not check if a smaller reporting company)	¨ Smaller reporting company

¨ Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o   No þ

The registrant has 41,620,416 shares of common stock, par value $0.01 per share, issued and outstanding as of April 27, 2018.

STAAR SURGICAL COMPANY

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STAAR SURGICAL COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value amounts)

(Unaudited)

	March 30, 2018	December 29, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$20,771	$18,520
Accounts receivable trade, net of allowance for doubtful accounts of $395 and $350, respectively	22,960	20,035
Inventories, net	13,444	13,674
Prepayments, deposits, and other current assets	4,936	4,207
Total current assets	62,111	56,436
Property, plant and equipment, net	11,856	9,776
Intangible assets, net	278	271
Goodwill	1,786	1,786
Deferred income taxes	1,265	1,242
Other assets	996	967
Total assets	$78,292	$70,478
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	$4,706	$4,438
Accounts payable	8,239	6,033
Obligations under capital leases	1,896	1,278
Allowance for sales returns	2,685	2,546
Other current liabilities	8,070	7,339
Total current liabilities	25,596	21,634
Obligations under capital leases	1,153	531
Deferred income taxes	414	350
Asset retirement obligations	215	202

Deferred rent	185	172
Pension liability	4,812	4,653
Total liabilities	32,375	27,542
Commitments and contingencies (Note 12)		
Stockholders’ equity:		
Common stock, $0.01 par value; 60,000 shares authorized: 41,592 and 41,383 shares issued and outstanding at March 30, 2018 and December 29, 2017, respectively	416	414
Additional paid-in capital	206,795	204,920
Accumulated other comprehensive loss	(629)	(1,150)
Accumulated deficit	(160,665)	(161,248)
Total stockholders’ equity	45,917	42,936
Total liabilities and stockholders’ equity	$78,292	$70,478

See accompanying notes to the condensed consolidated financial statements.

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STAAR SURGICAL COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended	
	March 30, 2018	March 31, 2017
Net sales	$ 27,093	$ 20,350
Cost of sales	7,662	5,773
Gross profit	19,431	14,577
Selling, general and administrative expenses:		
General and administrative	6,209	5,348
Marketing and selling	7,380	6,530
Research and development	5,043	4,783
Total selling, general and administrative expenses	18,632	16,661
Operating income (loss)	799	(2,084)
Other income (expense):		
Interest expense, net	(12)	(28)
Loss on foreign currency transactions	(77)	(86)
Royalty income	157	131
Other income, net	17	5
Other income, net	85	22
Income (loss) before provision for income taxes	884	(2,062)
Provision for income taxes	301	141
Net income (loss)	$ 583	$ (2,203)
Net income (loss) per share – basic	$ 0.01	$ (0.05)
Net income (loss) per share – diluted	$ 0.01	$ (0.05)
Weighted average shares outstanding – basic	41,410	40,749
Weighted average shares outstanding – diluted	43,087	40,749

See accompanying notes to the condensed consolidated financial statements.

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STAAR SURGICAL COMPANY

CONDENSED CONSOLIDATED STATEMENTS

OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended	
	March 30, 2018	March 31, 2017
Net income (loss)	$ 583	$ (2,203)
Other comprehensive income (loss):		
Defined benefit plans:		
Net change in plan assets	(9)	(14)
Reclassification into other income, net	25	18
Foreign currency translation gains	728	448
Tax effect	(223)	(133)
Other comprehensive income, net of tax	521	319
Comprehensive income (loss)	$ 1,104	$ (1,884)

See accompanying notes to the condensed consolidated financial statements.

STAAR SURGICAL COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	March 30, 2018	March 31, 2017
Cash flows from operating activities:		
Net income (loss)	$ 583	$ (2,203)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation of property, plant, and equipment	549	756
Amortization of intangibles	9	54
Deferred income taxes	92	(7)
Change in net pension liability	87	66
Loss on disposal of property and equipment	6	—
Stock-based compensation expense	1,301	510
Provision for sales returns and bad debts	514	232
Inventory provision	506	301
Changes in working capital:		
Accounts receivable	(2,755)	624
Inventories	(396)	101
Prepayments, deposits, and other current assets	(730)	(1,083)
Accounts payable	2,038	(1,157)
Other current liabilities	726	1,114
Net cash provided by (used in) operating activities	2,530	(692)
Cash flows from investing activities:		
Acquisition of property and equipment	(965)	(246)
Net cash used in investing activities	(965)	(246)
Cash flows from financing activities:		
Repayment of capital lease obligations	(380)	(301)
Repurchase of employee common stock for taxes withheld	—	(217)
Proceeds from vested restricted stock and exercise of stock options	454	597
Net cash provided by financing activities	74	79
Effect of exchange rate changes on cash, cash equivalents and restricted cash	612	360
Increase (decrease) in cash, cash equivalents and restricted cash	2,251	(499)
Cash, cash equivalents and restricted cash, at beginning of year	18,641	14,118

Cash, cash equivalents and restricted cash, at end of year	$ 20,892	$ 13,619

See accompanying notes to the condensed consolidated financial statements.

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STAAR SURGICAL COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of Presentation and Significant Accounting Policies

The Condensed Consolidated Financial Statements of the Company present the financial position, results of operations, and cash flows of STAAR Surgical Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Commission. In accordance with those rules and regulations certain information and footnote disclosures normally included in Comprehensive Financial Statements have been condensed or omitted pursuant to such rules and regulations. The Consolidated Balance Sheet as of December 29, 2017 was derived from the audited financial statements at that date, but does not include all the information and footnotes required by GAAP. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 29, 2017.

The Condensed Consolidated Financial Statements for the three months ended March 30, 2018 and March 31, 2017, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company’s financial condition and results of operations. The results of operations for the three months ended March 30, 2018 and March 31, 2017, are not necessarily indicative of the results to be expected for any other interim period or for the entire year.

Each of the Company’s fiscal reporting periods ends on the Friday nearest to the quarter ending date and generally consists of 13 weeks. Unless the context indicates otherwise “we,” “us,” the “Company,” and “STAAR” refer to STAAR Surgical Company and its consolidated subsidiaries.

Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Condensed Consolidated Statements of Cash Flows (in 000’s):

	March 30, 2018	December 29, 2017	March 31, 2017
Cash and cash equivalents	$20,771	$ 18,520	$13,500
Restricted cash included in other long-term assets	121	121	119
Total cash, cash equivalents and restricted cash as shown in the Consolidated Statements of Cash Flows	$20,892	$ 18,641	$13,619

The Company has restricted cash of approximately $121,000 set aside as collateral for a standby letter of credit required by the California Department of Public Health for unforeseen future regulatory costs related to the decommissioning of certain manufacturing equipment.

Revenue

On December 30, 2017 (beginning of FY 2018), the Company adopted ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” and its subsequent amendments: (i) ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date”; (ii) ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing;” (iii) ASU No. 2016-11, “Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting”; (iv) ASU No. 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients”; and (v) ASU No. 2016-20, “Revenue from Contracts with Customers (Topic 606): Technical Corrections and Improvements to Topic 606”, using the modified retrospective method, and determined that there was no cumulative effect adjustment on the Consolidated Financial Statements. The Company determined that the adoption of the new standard did not materially impact the revenue recognition on its Consolidated Financial Statements.

STAAR SURGICAL COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1 — Basis of Presentation and Significant Accounting Policies (Continued)

Revenue (Continued)

The Company recognizes revenue when its contractual performance obligations with customers are satisfied. The Company’s performance obligations are generally limited to single sales orders with product shipping to the customer within a month of receipt of the sales order. Substantially all of the Company’s revenues are recognized at a point-in-time when control of its products transfers to the customer, which is typically upon shipment (as discussed below). The Company presents sales tax and similar taxes it collects from its customers on a net basis (excluded from revenues).

The Company sells certain injector parts to an unrelated customer and supplier (collectively referred to as “supplier”) whereby these injector part sales are either made as a final sale to the supplier or, are sold to be combined with an acrylic IOL by the supplier into finished goods inventory (a preloaded acrylic IOL). These finished goods are then sold back to the Company at an agreed upon, contractual price. The Company makes a profit margin on either type of sale with the supplier and each type of sale is made under separate purchase and sales orders between the two parties resulting in cash settlement for the orders sold or repurchased. For parts that are sold as a final sale, the Company recognizes a sale and those sales are classified as other product sales in total net sales. For the injector parts that are sold to be combined with an acrylic IOL into finished goods, the Company records the transaction at its carrying value deferring any profit margin as contra-inventory, until the finished goods inventory is sold to an end-customer (not the supplier) at which point the Company recognizes revenues.

For all sales, the Company is considered the principal in the transaction as the Company is the party providing specified goods it has control over prior to when control is transferred to the customer. Cost of sales includes cost of production, freight and distribution, royalties, and inventory provisions, net of any purchase discounts. Shipping and handling activities that occur after the customer obtains control of the goods are recognized as fulfillment costs.

The Company generally permits returns of product if the product is returned within the time allowed by its return policies and records an allowance for estimated returns at the time revenue is recognized. The Company’s allowance for estimated returns considers historical trends and experience, the impact of new product launches, the entry of a competitor, availability of timely and pertinent information and the various terms and arrangements offered, including sales with extended credit terms. For estimated returns, sales are reported net of estimated returns and cost of sales are reported net of estimated returns that can be resold. On the Condensed Consolidated Balance Sheets, the balances associated for estimated sales returns are as follows:

	March 30, 2018	December 29, 2017
Estimated returns - inventory[1]	$631	$ 534
Allowance for sales returns	2,685	2,546

[1] Recognized in inventories, net on the Condensed Consolidated Balance Sheets

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based on customer payment history and credit worthiness, as determined by the Company’s review of its customers’ current credit information. The Company continuously monitors collections and payments from customers and maintains a provision for estimated credit losses and uncollectible accounts based upon its historical experience and any specific customer collection issues that have been identified. Amounts determined to be uncollectible are written off against the allowance for doubtful accounts.

The Company disaggregates its revenue into the following categories: non-consignment sales, consignment sales and royalty income.

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STAAR SURGICAL COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1 — Basis of Presentation and Significant Accounting Policies (Continued)

Revenue (Continued)

Non-consignment Sales

The Company recognizes revenue from non-consignment product sales at a point-in-time when control has been transferred, which is typically at shipping point, except for certain customers and for the STAAR Japan subsidiary, which is typically recognized when the customer receives the product. The Company does not have significant deferred revenues as of March 30, 2018 or March 31, 2017, as delivery to the customer is generally made within the same or the next day of shipment.

The Company also enters into certain strategic cooperation agreements with customers in which, as consideration for minimum purchase commitments the customers make, the Company agrees, among other things, to pay for marketing, educational training and general support of the Company's products. The provisions in these arrangements allow for these payments to be made directly to the customer in lieu of marketing and support or, payments can be made for distinct marketing, educational training and general support services provided by the customer or another party. For payments the Company makes to another party, or reimburses the customer, for distinct marketing and support services, the Company recognizes these payments as sales and marketing expense as incurred. These agreements are generally for periods of 12 months with quarterly minimum purchase commitments. The Company recognizes sales and marketing expenses in the period in which it expects the customer will achieve its minimum purchase commitment, generally quarterly, and any unpaid amounts are recorded in Other Current Liabilities in "Other" on the Condensed Consolidated Statements of Operations, see Note 6. Reimbursements made directly to the customer for general marketing incentives are treated as a reduction in revenues. The Company's performance obligations generally occur in the same quarter as the shipment of product.

Since the payments for distinct or non-distinct services occur within the quarter corresponding with the purchases made by the customer and the shipments made by the Company to that customer, there is no remaining performance obligation by the Company to the customer. Accordingly, there are no deferred revenues associated with these types of arrangements as of March 30, 2018 and March 31, 2017.

Consignment Sales

The Company’s products are marketed to ophthalmic surgeons, hospitals, ambulatory surgery centers or vision centers, and distributors. IOLs and ICLs may be offered to surgeons and hospitals on a consignment basis. The Company maintains title and risk of loss of consigned inventory and recognizes revenue for consignment inventory at a point-in-time when the Company is notified that the lenses have been implanted, and so the performance obligation occurs at a point in time.

Royalty Income

From time to time, the Company licenses its patents to third parties in connection with the manufacture of product. One type of licensing contract requires that the licensee pay the Company a quarterly royalty based on a percentage of the licensee’s quarterly sales. The Company recognizes the revenue at a point-in-time, typically quarterly based on various factors including information from the licensee, historical performance and contract minimums. Another type of licensing contract requires that the licensee pay the Company a lump sum royalty once certain milestones are achieved, such as upon the first commercial sale of a product incorporating a licensed patent or technology (performance obligation occurs over a period of time); no such income was recognized for the three months ended March 30, 2018 and March 31, 2017.

See Note 9 for additional information on disaggregation of revenues, geographic sales information and product sales.

The following table summarizes the impact of adopting Topic 606 on the Company’s Condensed Consolidated Financial Statements for March 30, 2018:

	As Reported	Adjustments	Balances without the adoption of 606
Accounts receivable trade, net	$ 22,960	$ (2,685)	$ 20,275
Total current assets	62,111	(2,685)	59,426
Total assets	78,292	(2,685)	75,607
Allowance for sales returns	2,685	(2,685)	—
Total current liabilities	25,596	(2,685)	22,911
Total liabilities	32,375	(2,685)	29,690
Total liabilities and stockholders’ equity	78,292		